

STATEMENT OF WILLIAM F. COMPTON,
PRESIDENT AND CEO,
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BEFORE THE SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
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Chairman McCain, Ranking Member Hollings, and other Members of this distinguished Committee, on behalf of TWA's more than 20,000 employees, thank you for the opportunity to testify today. I appreciate the chance to explain why our decision to pursue an asset purchase agreement with American Airlines should be approved and why this transaction is a good global solution for TWA customers, employees, retirees, and other stakeholders as well as the communities served by both carriers.

In response to your letter of January 25th, Mr. Chairman, my statement will address the impact that the American acquisition of TWA will have on airline passengers, communities now served by TWA, TWA's creditors and TWA's employees and retirees. I would like to begin by giving you my personal perspective on TWA and why, in my view, the proposed

transaction is the only comprehensive solution that adequately serves consumers in light of the harsh realities facing TWA, its employees and retirees.

I. How We Got Here

Since the late 1960s, when I became a pilot with TWA, the airline industry, and the economy have changed dramatically. It has been an uphill battle for TWA, particularly over the last 15 years, to simply survive. In 1985, TWA, during the height of Wall Street-driven mergers and acquisitions, was acquired by Carl Icahn. Subsequently, TWA was stripped of many of its most valuable assets.

Through the efforts and commitment of its employees, TWA eventually was able to secure a change in corporate ownership. At that point, however, TWA was saddled with enormous debt, an aging fleet, a pension fund that had been deemed to be seriously underfunded, and the loss through sale of many of its most valuable routes. The fact that TWA survived in those circumstances is due to the sheer dedication of its employees. They gave concessions and survived not one, but two, bankruptcies to ensure the continuation of the airline to the present time.

In fact, notwithstanding its financial predicament, TWA has made a remarkable operational turnaround over the last four years. TWA has been ranked at or near the #1 spot for on-time arrivals since 1997. In 1998 and 1999, customers voted us the winner of the J.D. Power award for customer satisfaction. In 2000, we finished second among all of the airlines in both J.D. Power award categories. We replaced almost our entire fleet, with the result that it is now, on average, one of the youngest in the airline industry.

We made these improvements without huge capital outlays or marketing campaigns. We did it with dedication, professionalism, and pride – hallmarks of TWA throughout its 75 years. But, TWA's financial predicament continues and we can no longer afford to operate, let alone sustain these advances.

II. TWA's Many Successes Have Not Been Enough

Despite TWA's many accomplishments , profitability remained elusive. The events of the 1980s had made it virtually impossible to compete effectively. Due to its fragile financial condition, TWA is paying premium lease prices for its aircraft – almost twice the industry average. The need to provide long-overdue wage increases for TWA employees and the recent, staggering increases in the price of jet fuel have further drained

TWA's reserves. TWA remains essentially a single hub operation, putting us at a schedule disadvantage to multiple hub carriers. Finally, this winter we ran out of time. In fact, by January 10, 2001, TWA had cash on hand of only \$20 million and needed significantly more just to make it through the next day. With our cash reserves nearly depleted and a major financial commitment to lenders coming due, our backs were squarely against the wall.

The financial crisis that hit TWA this winter did not materialize overnight. A year ago we could see problems looming on the horizon that culminated in our recent bankruptcy filing, and we tried very hard to do something dramatic about it. We recognized that the viability of our airline was at stake and we went knocking on doors to find a solution. There is not an airline of any size in America that we did not approach. There is not an airline of any size in America that did not have an opportunity to step in and join with us. No one was interested in TWA as a going concern. In my view, most recognized that they would benefit from TWA's demise, and they were willing, at best, to stand back and watch it happen.

Only American Airlines saw fit this winter to come forward with a proposal that was not merely an offer to cherry-pick a prized asset here or there. American proposed a comprehensive

solution that will realize for our creditors the value of TWA as a going concern. It will preserve jobs for our employees and medical benefits for our retirees. It will maintain hub service for St. Louis and will safeguard TWA's major economic presence in additional communities around our system – most notably Kansas City, New York and Los Angeles where we employ thousands.

III. American Airlines Transaction Offers Comprehensive Solution

The transaction proposed with American Airlines offers a comprehensive solution to the problems facing TWA. It addresses the varying needs of TWA employees, retirees, creditors, and consumers and the communities served by TWA.

This transaction offers protection for TWA's 20,000 employees and many thousands of our retirees and dependents. American has made a bedrock commitment to retain the vast majority of TWA employees and to absorb responsibility for TWA retirees' medical and dental insurance benefits. Not only does this speak volumes about American's integrity, it achieves TWA's goal of protecting its skilled and dedicated work force. It is here that American is gaining TWA's greatest asset – its employees. American will find that it has acquired motivated

employees who carry out their work with the highest level of quality and commitment.

The consumers and the communities served by TWA also will be better served by the American transaction than by liquidation. Liquidation of TWA assets without a commitment to maintaining TWA jobs would result in vast reductions of service to many communities. Certainly other carriers would benefit from such a reduction in competition, but consumers would pay the price.

The price to be paid in a TWA liquidation would be highest in our home state of Missouri and our hub city St. Louis. In a court hearing last weekend, attorneys for the City of St. Louis stated that the economic contribution of Lambert-St. Louis International Airport to the local economy is \$8 billion a year. TWA and its regional airline partners offer approximately 75 percent of the departures from Lambert. It is not difficult to envision the benefit of a continuation of this service under the auspices of American Airlines (or, for that matter, any other carrier that is willing to come forward in the auction process and commit to an acquisition of the TWA operation).

Other communities also would be harmed by the liquidation alternative. TWA's 187 aircraft could cease to be in

service. Air service to more than 100 communities would be negatively impacted. The result could be lower capacity, higher prices, and less service for the traveling public and a diminished business development capacity for dozens of communities.

An acquisition of TWA assets as a total operation best serves to protect the traveling public and the communities that rely heavily on TWA. American has committed to retain the St. Louis hub operations. With additional aircraft from TWA in its system, American will be able to support TWA's route structure.

Several of our competitors are now suddenly saying, out of an apparent desire to avoid the enhancement of American, that TWA could be maintained as a stand-alone enterprise or its assets parceled out among various carriers to "protect the interest of the creditors." These claims, in addition to being disingenuous and self-serving, ignore the realities of the airline industry. They also disregard the needs of TWA consumers, employees and retirees. In fact, they also do not present the best options for TWA's largest creditors.

On balance, TWA believes that the American transaction presents the best protection for all TWA creditors. At present the offer from American is the only offer for the acquisition of TWA's assets actually on the table. Proposals put forth by

others in the bankruptcy court will be evaluated and given serious consideration if and when they come forward. Our assets will be sold through a bankruptcy auction process and we remain open to higher and better offers. But, so far, the American Airlines plan is the only global solution on the table and to us clearly offers the most benefit to the greatest number of TWA stakeholders.

IV. TWA's Final Chapter Ends on a Positive Note

As I look to the future of aviation, there are many chapters yet to be written. I believe, however, that the nature of TWA's final chapter will be viewed in years to come as having provided major benefits to the aviation industry. Among the ranks of our current employees, there are many young and talented people who have benefited from their apprenticeships under seasoned TWA veterans. They can take with them to American, and to every corner of the aviation world, knowledge and experience that is invaluable. When I consider this possibility becoming a reality for so many of our workers through this transaction, I know that all of our efforts will have been worthwhile. Indeed, TWA's legacy, if not its grand name, will be carried forward by its people.

Just as important, consumers will continue to see the same levels of service without the dislocation that would have otherwise occurred if a bankruptcy with a parceling out of assets had occurred. Indeed, this is the only way that public interest will be served in the long run.

Mr. Chairman, let me conclude by again thanking you for the opportunity to testify today. As I have said, we strongly believe this transaction should go forward. It is in the best interest of TWA employees, retirees, creditors, consumers, and communities served by both carriers. I would be pleased to respond to any questions.